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MONTHLY PROJECTIONS
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LEAN INVENTORIES TO STIMULATE PRODUCTION IN NEXT TWO QUARTERS

In the past year, sales of manufacturing and trade have increased 3.6% while inventories have expanded 2.9%. This does not appear to be a large discrepancy, but declining prices for many of the goods held in inventory have biased estimates of inventories upward relative to sales. In the preliminary GNP release for the third quarter, the book value of inventories overstated the replacement cost of those inventories by $6.1 billion. Moreover, sales have spurted in August and September while inventories have declined. For example, our projections suggest that sales have grown 5.2% in the past twelve months through September while inventory expansion will be a meager 1.7% increase. Vendor performance suggests that inventories on the shelves are becoming lean, as delivery delays nearly doubled in the September report. Also, inventories of fuel oil are almost dangerously low, falling 25 million barrels below levels normally assumed to be acceptable for this time of year. Indeed, the shortage of fuel oil has begun to spark a price rally for both petroleum product and crude petroleum in recent weeks.

While some temporary spurts in prices can be anticipated from the unusually lean position of inventories relative to sales, substantial excess production capability can be brought to bear to remove any temporary shortcomings. Thus, price spurts, even for the petroleum-based products, are expected to be temporary. However, production spurts certainly should be expected.

In September, production did not respond to increased sales, as those sales gains were assumed to be the result of temporary incentives. However, sales have now substantially reduced available inventories all the way from finished parts to crude materials. These inventories may not prove to be adequate even at reduced sales levels during the fourth quarter. Therefore, a spurt in production and in GNP is anticipated in the months ahead. As production remained subdued in September, it is unlikely that real economic activity during the fourth quarter can expand in excess of 4%, as previously projected. However, production in excess of 3% for the next two quarters appears to be likely even as consumer spending slows sharply from earlier in the year.

Of course, consumer spending should slow sharply. The savings rate in September fell below 2%, although a $6 billion write-off of property values at annual rates for the effects of Hurricane Elena partially contributed to such a low savings rate. Hurricane Gloria will have a similar, slightly smaller impact upon rental incomes in October. However, income should gradually accelerate, especially as interest incomes begin to contribute favorably to household income in the fourth quarter and early in 1986. Nevertheless, consumer spending should show no growth in the fourth quarter as savings rates are gradually rebuilt, especially by consumers who shifted automobile purchases into the third quarter to take advantage of especially favorable automobile financing. Even with this projected sluggish consumer spending, the savings rate remains remarkably low well into 1986. A favorable ratio between wealth and consumption provides justification for such low rates of saving, but any substantial retrenchment in equity values almost certainly would generate more sluggish consumer spending than currently anticipated. Under such circumstances, no inventory buildup will be needed and a recession in the latter half of 1986 would become very likely.

Construction orders remain surprisingly robust, with private nonresidential orders rising 12% from previous year levels in the latest month. Early projections for 1986 suggest further increases into the year before declines begin materializing by mid-year. However, the lagged response between expenditures and orders suggests that nonresidential spending will continue to grow until the last quarter of next year.

The current economic condition, where inventories are lean but consumers are exhausted, poses a difficult dilemma for the Federal Reserve. Inflationary pressures probably will momentarily surface because some inventories, especially petroleum products, are unusually tight. In addition, the buildup of inventories will tend to increase interest rate pressures. Money growth as measured by currency and checkable deposits already has been excessive. If the Federal Reserve accommodates the inventory buildup, money growth will intensify. On the other hand, if the Federal Reserve reacts against temporary expansion of activity and momentary increases of inflation, then rising interest rates could weaken equity values. Also, strengthening interest rates while economic activity is rebounding almost certainly would strengthen the dollar against foreign currency. This would expose the manufacturing sector to renewed weakness and also create downward pressures upon consumer spending. Fortunately, the currency interventions initiated last month by the Group of Five have permitted enough dollar liquidity to migrate home to moderate money growth without seriously increasing interest rates. This might provide the Federal Reserve with a few more months of watchful waiting before renewed rapid money growth requires a choice between increasing inflation or rising interest rates.

Equity markets should be slow to react to rising rates of interest until early 1986. The preliminary GNP estimates for the third quarter suggests that corporate profits after taxes were up 4.8%. Operating profits less tax liabilities were up more than 6%. Although interest rates have increased since June, increases have been much smaller than gains in profitability. As a result, equity values should have risen more substantially than they have. With further significant gains in corporate profitability anticipated for the fourth quarter, new highs should be recorded on all major stock indices before the quarter is through.

Quarterly Profile of GNP

	1985-2	1985-3	1985-4	1986-1	1986-2	1986-3
Real:	1.9	3.3	3.3	3.0	2.0	0.8
Price:	2.6	3.3	4.5	3.3	3.8	4.7
Nominal:	4.5	6.7	7.9	6.4	5.9	5.5

Monthly Statistical Highlights for October 1985

Payroll employment +189,000; index of hours worked +0.2%; household employment +239,000; civilian unemployment rate 7.1%; personal income +0.4%; savings rate 3.1%; personal consumption -0.9%; retail sales -3.8%; auto sales 9.6 million; housing starts +4.2%; housing permits -3.0%; construction expenditures -0.3%; business inventories +0.4%; orders for durable goods +0.4%; orders for nondefense capital goods -1.5%; industrial production +0.4%; CPI +0.3%; PPI +0.6%; consumption deflator +0.9%; leading indicators +0.1%; real GNP +2.9%; M1 -2.1%; M2 +6.1%.

Monthly Statistical Highlights for November 1985

Payroll employment +314,000; index of hours worked +0.3%; household employment +368,000; civilian unemployment rate 7.0%; personal income +0.5%; savings rate 2.9%; personal consumption +0.9%; retail sales +1.4%; auto sales 10.2 million; housing starts +5.9%; housing permits -2.1%; construction expenditures +0.4%; business inventories +0.7%; orders for durable goods -0.6%; orders for nondefense capital goods -1.3%; industrial production +0.4%; CPI +0.4%; PPI +0.2%; consumption deflator +0.4%; leading indicators +0.1%; real GNP 2.1%; M1 +3.8%; M2 +7.4%.

COMMENTARY

Employment Situation - Weakness in manufacturing payrolls was especially disconcerting, as payrolls in the machinery sectors again slipped sharply. Virtually all the weakness was in durable goods, and this was confirmed by the industrial production report and the shipments in durable goods industries. However, increasing orders for durable goods other than defense suggests that payrolls in the machinery sector will not be as weak in the months ahead. The Chrysler strike will have a modest impact upon employment of transportation equipment personnel in October. The insured unemployment rate is consistent with a slightly higher level of unemployment than the 7.1% recorded in September. However, initial unemployment claims are slightly below previous month levels. Therefore, no change in unemployment is anticipated in the next report.

Of more favorable consequence is the largely unchanged hourly earnings index in the past three months. Over the past year this index has increased only 2.4%, the lowest year-over-year comparisons in this expansion. Obviously, the unemployment rate remains above levels that would create increasing wage inflation. Wages are expected to increase more sharply as the CPI begins to accelerate. Nevertheless, the hourly earnings index has been revised to show much smaller increases in the next year than originally anticipated.

Personal Income & Outlays - The moderation in wage gains is largely responsible for slower growth in wages and salaries than contained in our previous forecast. However, wages and salaries expanded 0.8% in September as industries paying high wages added to their hours worked. Such a rapid increase is not anticipated during the next few months. On the other hand, hurricane damage sharply reduced rental incomes after the property losses were annualized. This factor reduced September personal income by $6 billion and will also hold October incomes $6 billion below what would occur in the absence of hurricane damage. The weakness in interest income is surprising, as interest rates reached their low points in June. Perhaps, certificate roll-overs and reduced holdings of interesting bearing instruments may be responsible for this continued decline in interest income. Gains are anticipated in this area of property income during the next few months.

Farm income also is expected to show a modest spurt in the fall as a result of improving meat prices. Our PPI survey shows that agricultural prices rose 3.0% in October. In addition, non-farm proprietor's income should continue to expand by more than $2 billion per month.

After surging well above trend in August and September, automobile sales should fall below trend in October before regaining a reduced trend-like growth rate in subsequent months. Our projections suggest that some of the automobile sales surge was at the expense of future sales. With increasing prices for non-durable goods, some acceleration is anticipated in spending for those commodities in the next few months. This will be moderated to some extent by slower gains in service expenditures, especially housing and transportation services, than originaly projected.

Construction - Weakness in housing starts during September cannot be readily explained. Permits remain unusually robust while construction activity has sagged. In the rental property area, builders may be delaying initial work on permitted units because rental markets currently are overbuilt. Yet, builders would want to accelerate construction once again if prospects for tax reform re-emerge in 1986. Some of the weakness in single-family starts may be the result of weakening sales in parts of the south and west. Sales of previously owned homes declined 2% in September even though mortgage financing remained favorable. Apparently, all the pent-up demand for housing has been met at current affordability rates. Unless affordability sharply increases, a prospect that appears dim, little further acceleration in housing activity should be anticipated. If interest rates rise, as we anticipate early in 1986, some weakness in housing activity should re-emerge. At the present time, the weakness in housing starts during September is being treated largely as an aberration. Nevertheless, that aberration will restrain expenditures for residential construction through the fourth quarter.

Other construction is gradually rebounding. Public construction remains on a relatively high plateau following a burst of activity earlier in the year. Private nonresidential activity is rebounding following a mid-year slump. Some of that slump may also have been the result of tax reform fears.

Business Activity - The most substantial shift in business activity is in inventory accumulation, where increasing production and reduced sales should add to business inventories in October and November. In September, shipments of durable goods fell 2.4% while orders other than for defense increased 0.7%. Although defense orders were down 19.3%, this was the result of no unusual B-1

bomber orders in September following two months when those orders were substantial. Defense orders still exceed shipments by more than $1 billion. More significantly, orders for nondefense capital goods now exceed shipments by $2 billion. This almost certainly indicates that shipments will be rising during the fourth quarter.

Industrial production was revised to show greater weakness in July than originally reported. The surge in August was larger than originally stated, probably reflecting the faulty seasonals that appeared in the employment statistics but were absent from the initial industrial production report. If so, much of the weakness in industrial production during September is merely unwinding those seasonal patterns. This should set the stage for significant expansion during the fourth quarter.

Prices - Two offsetting composition shifts impacted the GNP deflator during the third quarter. The sharp plunge in inventories caused an increase in inflationary pressures. At the same time, shifts in consumer spending toward automobiles lowered the consumption deflator. These composition shifts will largely reverse themselves during the fourth quarter, although the slowing in automobile sales and its impact upon the consumption deflator may be slightly more dramatic than the rebound in inventories.

Of greater consequence than the composition shifts is the increasing inflationary pressures caused by temporary shortages of petroleum products. In addition, meat prices momentarily have firmed. Indeed, the 0.2% increase in the CPI during September was disappointing as financing incentives and less than seasonally anticipated tuition increases tended to hold down the index. In addition, the sawtoothed pricing pattern for rentals and homeowners' costs had reached a low point in September. While our projections show CPI rising 0.3% in October and 0.4% in November, more rapid gains than that are possible. Of course, the surge in energy prices is temporary and should reverse sometime in the latter part of the winter months. These pricing patterns are incorporated in our inflationary projections.

Miscellaneous - Gradually accelerating inflation and slowing money growth should lead to reduced contributions from the money stock in the leading indicators. In addition, housing permits cannot continue to rise when the =y already are more than 150,000 above starts. The dollar devaluation has led to some firming of sensitive prices. In addition, the workweek already is unusually long for this stage of the business cycle. Thus, many of the leading indicators that have been moving upward are not expected to contribute significantly to advances in the months ahead. This explains the relatively flat pattern anticipated for the leading indicators over the next 12 months.

A large portion of the inventory valuation adjustment that must be added to inventory values is the result of energy materials. The current rebound in energy prices should cause that positive IVA to dissipate.

FINANCIAL MARKETS

During the period of inventory liquidations in the third quarter, corporate uses of funds were falling even more sharply than household savings rates. Government deficits continued to hover in the $150 billion consolidated range that had been established several quarters ago. As a result, downward pressures

would have been exerted upon interest rates except for the rising interest rate premiums required by foreign investors to offset modest concern that the dollar might be falling in value.

During the fourth quarter, foreign investors are not expected to be more concerned about future weakness in the dollar's value, as the currency market intervention has brought the dollar down to a point where foreigners can contemplate a rally. Indeed, substantial foreign investor support for government borrowings is anticipated once the debt limitation restraints are lifted and government bonds again are aggressively issued during November and early December. However, the inventory buildup should cause greater corporate use of borrowings. Some of this already is being reflected in rising commercial paper rates and increases in the quantity of commercial paper outstanding. Although households should increase their savings during the fourth quarter, this is not expected to be sufficient to offset the swing in corporate borrowing needs. As a result, interest rates should begin trending upward before the end of the quarter. Further upward pressures upon interest rates are expected early in 1986 as inventory borrowings intensify even as corporate profitability begins to be squeezed by rising interest costs. Toward the end of the year, however, weakness in construction should begin to generate renewed interest rate relief.

Equity Markets - Because of the sluggish rebound in interest costs, returns to equity owners have been larger than expected in the third quarter and also should rise sharply during the fall. Such earnings should not rise significantly in 1986, however. With equity gains rising more rapidly than interest rates until 1986, the stock market should be able to generate highs on most of its leading indicators. In 1986, pressures upon corporate profitability and modestly rising interest rates until the latter part of that year should cause equity values to drift downward. Thus, equity owners should maintain their positions through 1985 but begin diminishing their equity portfolios early in 1986 in contemplation of a modest decline in equity values.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	97120	97120	115.6	115.6	106945	106945	7.3	7.3	164.8	164.8
May	97386	97421	116.2	116.2	106960	106960	7.3	7.3	165.0	164.9
June	97466	97473	116.5	116.3	106370	106370	7.3	7.3	165.4	165.7
July	97639	97707	116.8	116.0	106865	106862	7.3	7.3	165.9	165.4
August	97952	97987	117.0	116.7	107180	107172	7.3	7.0	166.4	165.6
September	98265	98115	117.3	117.2	107494	107544	7.3	7.1	166.8	165.6
October	98429	98304*	117.6	117.4*	107765	107783*	7.2	7.1*	167.4	165.9*
November	98652	98618	117.9	117.7	108079	108151	7.2	7.0	168.0	166.3
December	98869	98785	118.1	117.9	108246	108357	7.2	7.0	168.7	166.7
January 1986	99027	98978	118.3	118.1	108453	108580	7.2	6.9	169.3	167.2
February	99196	99162	118.5	118.3	108689	108805	7.1	6.9	170.0	167.7
March	99311	99346	118.7	118.5	109237	109051	7.1	6.8	170.6	168.1
April	99507	99723	118.8	118.7	109534	109253	7.0	6.8	171.1	168.6
May	99648	99723	119.0	118.9	109475	109471	7.0	6.8	171.6	169.2
June	99798	99832	119.2	119.0	109107	109505	7.0	6.8	172.2	169.8
July	99943	100000	119.3	119.2	109771	109808	7.0	6.7	172.8	170.3
August	100126	100101	119.5	119.3	109969	109903	7.0	6.7	173.4	170.8
September	100336	100226	119.6	119.3	110062	110019	7.0	6.8	174.0	171.4

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	3.186	3.185	1.903	1.903	145.7	143.4	2.721	2.719	2.575	2.576
May	3.164	3.164	1.908	1.908	171.8	174.3	2.765	2.764	2.594	2.590
June	3.176	3.176	1.917	1.921	90.8	100.4	2.696	2.696	2.606	2.596
July	3.198	3.189	1.930	1.923	98.8	104.0	2.722	2.707	2.623	2.603
August	3.220	3.199	1.942	1.934	109.6	79.2	2.744	2.713	2.634	2.634
September	3.243	3.209	1.953	1.949	118.9	51.9	2.765	2.717	2.646	2.665
October	3.261	3.223*	1.964	1.957*	115.4	85.8*	2.778	2.729*	2.663	2.643*
November	3.280	3.245	1.975	1.967	115.5	80.6	2.792	2.748	2.677	2.667
December	3.300	3.260	1.986	1.975	107.3	78.2	2.803	2.760	2.696	2.681
January 1986	3.311	3.275	1.996	1.985	111.1	84.6	2.820	2.773	2.709	2.688
February	3.335	3.292	2.006	1.994	120.1	87.6	2.842	2.787	2.722	2.699
March	3.363	3.310	2.015	2.003	130.0	90.2	2.864	2.802	2.734	2.712
April	3.375	3.327	2.025	2.012	123.3	88.5	2.874	2.816	2.751	2.728
May	3.385	3.349	2.034	2.024	115.3	91.1	2.883	2.835	2.768	2.744
June	3.396	3.366	2.043	2.033	107.6	91.6	2.892	2.849	2.784	2.757
July	3.413	3.385	2.054	2.043	106.3	94.9	2.908	2.865	2.802	2.770
August	3.426	3.401	2.065	2.051	100.7	93.1	2.921	2.878	2.820	2.785
September	3.440	3.417	2.076	2.059	98.8	91.2	2.934	2.890	2.835	2.799

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	2482.7	2483.0	341.0	341.0	894.1	894.1	1247.6	1247.9	1100.3	1100.7
May	2499.7	2495.6	342.7	342.7	891.2	891.2	1265.8	1261.8	1104.6	1103.9
June	2510.1	2500.4	336.2	333.9	892.1	890.4	1281.8	1276.1	1105.1	1101.6
July	2526.4	2506.9	339.6	336.9	898.4	892.1	1288.4	1277.9	1109.0	1103.1
August	2536.2	2536.1	340.9	357.4	903.8	893.6	1291.5	1285.1	1110.9	1114.8
September	2546.6	2566.6	343.7	372.5	908.3	901.1	1294.6	1292.9	1113.5	1127.9*
October	2561.5	2542.9	344.1	336.0*	910.8	906.3*	1306.6	1300.6*	1116.1	1107.5
November	2573.6	2565.6	342.7	345.6	911.6	911.7	1319.3	1308.3	1117.5	1113.2
December	2591.1	2578.8	344.6	346.5	914.5	914.5	1332.0	1317.8	1121.2	1115.9
January 1986	2603.1	2584.2	345.5	341.4	916.9	916.4	1340.7	1326.4	1122.0	1114.4
February	2615.0	2594.5	346.3	341.2	919.7	918.2	1349.0	1335.1	1122.8	1116.2
March	2626.0	2605.7	346.2	343.5	922.5	918.0	1357.3	1344.2	1123.2	1118.8
April	2641.2	2620.2	345.5	345.9	927.6	921.5	1368.1	1352.8	1125.8	1122.6
May	2656.7	2635.3	345.6	347.5	932.5	926.2	1378.6	1361.6	1128.1	1125.7
June	2671.9	2647.6	346.0	348.3	937.4	928.4	1388.5	1370.9	1130.2	1127.1
July	2687.9	2659.1	346.8	347.6	943.7	932.0	1397.4	1379.5	1132.7	1127.9
August	2705.3	2672.8	348.1	347.5	949.0	936.7	1408.2	1388.6	1135.7	1130.0
September	2719.0	2685.5	348.5	347.9	951.6	939.3	1418.9	1398.3	1137.2	1131.3

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	115.35	115.35	16.71	16.71	11.1	11.1	72.42	72.42	26.23	26.23
May	114.81	114.88	16.51	16.66	11.2	11.3	72.33	72.10	25.98	26.13
June	113.94	113.73	16.00	16.24	10.5	10.3	72.36	71.67	25.58	25.82
July	115.14	114.42	16.40	16.47	10.5	10.3	72.85	72.08	25.89	25.87
August	115.74	117.04	16.46	16.70	10.6	12.6	73.29	72.77	25.99	27.57
September	116.45	120.23	16.59	16.80	10.7	14.5	73.65	73.22	26.21	30.20
October	116.71	115.72*	16.87	16.84*	10.4	9.6*	73.86	73.64*	25.98	25.24*
November	116.60	117.36	16.80	16.95	10.5	10.2	73.92	74.08	25.88	26.33
December	117.07	117.71	16.71	16.99	10.7	10.1	74.16	74.31	26.20	26.41
January 1986	117.38	117.22	16.85	16.93	10.6	9.8	74.35	74.46	26.18	25.83
February	117.71	117.34	17.10	17.08	10.4	9.7	74.58	74.61	26.03	25.65
March	117.92	117.61	17.13	17.16	10.3	9.8	74.81	74.59	25.98	25.86
April	118.25	118.20	17.27	17.29	10.2	10.0	75.22	74.88	25.76	26.03
May	118.66	118.78	17.46	17.43	10.0	10.0	75.62	75.26	25.58	26.09
June	119.10	119.06	17.40	17.38	10.1	10.1	76.01	75.44	25.69	26.24
July	119.71	119.27	17.39	17.40	10.1	10.0	76.52	75.73	25.80	26.14
August	120.30	119.63	17.48	17.46	10.1	9.9	76.95	76.11	25.87	26.06
September	120.46	119.89	17.64	17.59	10.0	9.8	77.17	76.32	25.76	25.98

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	1.933	1.933	1.155	1.155	1.704	1.704	338.3	341.9	202.9	204.2
May	1.675	1.681	1.041	1.039	1.778	1.778	343.5	339.9	205.7	202.2
June	1.705	1.701	1.027	1.031	1.713	1.712	343.5	343.8	205.3	203.1
July	1.800	1.663	1.072	1.062	1.675	1.694	345.5	340.2	207.1	201.7
August	1.808	1.746	1.095	1.074	1.682	1.784	348.7	344.0	209.4	204.5
September	1.793	1.583	1.118	0.962	1.661	1.796	352.7	348.0*	211.5	206.7*
October	1.806	1.649*	1.126	0.994*	1.668	1.743	353.5	347.0	211.4	205.6
November	1.792	1.746	1.132	1.063	1.643	1.706	355.8	348.3	212.3	205.7
December	1.777	1.748	1.117	1.068	1.629	1.648	358.2	350.3	213.1	206.4
January 1986	1.752	1.765	1.102	1.112	1.582	1.653	357.2	354.8	212.1	208.5
February	1.725	1.717	1.082	1.076	1.565	1.621	357.1	358.2	211.7	210.0
March	1.698	1.666	1.061	1.046	1.569	1.568	357.2	359.1	211.4	209.9
April	1.643	1.633	1.036	1.027	1.542	1.556	355.0	359.6	209.7	209.6
May	1.591	1.649	1.015	1.035	1.496	1.524	354.0	358.9	208.7	208.5
June	1.539	1.626	0.994	1.024	1.483	1.507	352.9	359.0	207.7	208.1
July	1.535	1.629	0.982	1.036	1.442	1.513	351.8	358.7	206.6	207.3
August	1.553	1.637	0.985	1.053	1.435	1.508	350.0	359.2	205.2	207.3
September	1.565	1.642	1.012	1.072	1.443	1.519	348.9	360.2	204.2	207.4

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	134.5	135.4	59.3	59.9	144.5	146.5
May	135.7	134.2	61.0	63.5	146.8	142.3
June	135.0	131.8	60.9	64.9	147.6	147.2
July	138.1	131.0	59.9	64.7	147.5	144.5
August	141.4	132.3	59.0	64.4	148.3	147.2
September	144.7	133.5*	59.0	64.8*	149.0	149.7*
October	143.7	134.8	59.7	63.9	150.1	148.3
November	144.3	135.5	60.3	64.5	151.2	148.3
December	145.0	136.4	60.9	65.2	152.3	148.7
January 1986	145.8	137.7	60.5	64.8	150.9	152.3
February	146.6	138.5	60.7	65.4	149.8	154.3
March	147.3	139.3	61.0	65.9	148.9	153.9
April	148.0	140.5	60.5	66.3	146.5	152.8
May	148.7	141.1	61.0	66.7	144.3	151.1
June	149.3	141.7	61.4	67.1	142.2	150.2
July	150.0	142.5	61.5	66.8	140.3	149.4
August	150.3	143.3	61.7	67.2	138.0	148.7
September	150.2	144.0	61.7	67.5	137.0	148.7

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	286.0	286.0	99.73	99.84	25.41	25.46	27.26	27.10
May	285.0	284.9	103.03	102.97	25.64	25.59	26.98	26.81
June	285.0	285.7	104.85	106.78	27.40	27.98	27.00	27.48
July	285.4	285.0	103.05	104.37	26.93	26.69	27.16	27.04
August	286.0	284.6	104.96	107.33	27.45	27.55	27.33	27.79
September	286.7	284.9	103.82	106.11	27.62	28.85	27.50	26.54
October	287.8	285.6*	103.56	106.52*	27.55	28.43*	27.65	27.53*
November	288.7	286.8	104.73	105.92	27.82	26.05	27.85	27.92
December	289.6	288.1	104.25	106.27	27.83	28.23	28.04	28.06
January 1986	290.3	290.0	104.17	105.84	27.54	28.12	28.10	28.15
February	291.5	290.7	103.28	105.53	27.59	27.93	28.00	28.22
March	292.8	291.6	105.43	106.14	28.12	28.07	28.09	28.29
April	294.0	292.5	104.81	106.79	28.10	28.21	28.18	28.35
May	295.3	293.4	105.36	107.05	28.42	28.04	28.27	28.46
June	296.8	294.2	105.15	107.03	28.40	27.92	28.35	28.33
July	298.1	295.1	105.72	106.71	28.63	27.78	28.44	28.46
August	299.5	295.9	105.07	106.84	28.55	27.66	28.52	28.29
September	300.5	296.6	104.96	106.23	28.46	27.41	28.60	28.05

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	580.2	580.2	6.38	6.35	124.3	124.1	80.9	80.8
May	577.9	577.8	6.59	6.58	124.4	124.1	80.8	80.6
June	577.9	579.7	7.07	7.22	124.6	124.3	80.7	80.5
July	578.8	580.1	7.00	6.83	124.8	124.1	80.7	80.2
August	580.3	577.9	7.03	7.16	125.2	124.8	80.7	80.5
September	581.5	574.2*	7.07	7.07*	125.6	124.7	80.8	80.2
October	583.2	576.3	7.15	7.20	126.2	125.2	81.0	80.4
November	585.1	580.2	7.28	7.12	126.9	125.7	81.3	80.6
December	586.9	583.1	7.42	7.28	127.4	126.1	81.4	80.7
January 1986	589.2	587.4	7.53	7.39	127.4	126.5	81.1	80.8
February	592.0	589.3	7.63	7.52	127.5	125.9	81.0	80.9
March	594.2	591.6	7.75	7.61	127.5	127.3	80.7	80.9
April	596.7	593.7	7.84	7.72	127.6	127.5	80.6	80.8
May	599.3	595.9	7.93	7.95	127.7	127.7	80.5	80.6
June	601.3	597.4	8.01	7.93	127.8	127.8	80.3	80.4
July	603.4	599.8	8.15	8.14	127.8	128.2	80.1	80.5
August	605.9	601.4	8.22	8.16	127.9	128.0	80.0	80.2
September	607.8	602.8	8.30	8.25	128.0	127.8	79.9	79.9

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	320.4	320.4	293.6	293.6	323.8	323.8	230.23	230.17
May	321.1	321.1	294.2	294.2	325.3	325.3	230.60	230.43
June	321.8	321.8	294.2	293.5	325.2	324.7	231.12	231.05
July	322.6	322.4	294.5	294.4	325.2	324.3	231.75	231.80
August	323.3	323.0	294.3	293.5	324.9	323.6	232.41	232.45
September	324.0	323.6	294.1	291.7	324.0	322.5	233.22	233.07
October	325.0	324.7*	294.8	293.5*	325.7	323.8*	233.84	234.19
November	326.2	325.9	295.3	293.8	326.2	324.2	234.35	235.10
December	327.4	326.5	295.4	294.3	326.6	324.5	234.98	235.72
January 1986	328.6	327.5	296.4	294.9	327.3	325.0	235.90	236.41
February	329.8	328.1	297.2	295.1	328.0	325.4	236.86	236.92
March	331.0	328.8	298.0	294.7	328.7	325.0	237.81	237.44
April	332.5	329.8	298.6	295.5	329.3	325.6	238.54	238.21
May	334.0	331.1	299.1	296.3	329.6	326.1	239.39	239.12
June	335.4	332.4	299.7	296.8	329.9	326.6	240.23	240.03
July	336.3	333.8	300.5	297.4	330.5	327.0	241.11	240.92
August	337.2	334.9	301.6	297.8	332.3	327.6	242.05	241.87
September	338.2	335.8	301.5	298.0	331.1	328.2	242.98	242.91

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	225.6	225.6	179.2	179.2	221.1	221.1	246.6	246.6	166.7	167.4
May	226.3	226.1	178.5	178.3	221.3	221.1	248.3	248.0	167.0	168.1
June	227.3	227.0	178.1	177.8	220.9	221.3	250.0	249.5	167.3	169.3
July	227.8	227.3	178.6	177.8	221.4	221.7	250.8	250.0	166.8	168.7
August	228.3	227.5	179.4	178.8	221.9	221.7	251.6	251.0	166.5	168.2
September	228.7	227.6*	180.1	179.0*	222.3	222.1*	252.4	251.5*	166.8	168.4*
October	229.5	229.6	180.3	179.9	222.4	223.4	253.6	252.5	167.2	168.8
November	230.3	230.5	180.2	180.6	222.5	224.6	254.8	253.6	167.6	169.3
December	231.1	231.1	180.4	180.8	222.8	225.0	256.0	254.5	168.1	169.7
January 1986	232.0	231.9	180.8	181.1	223.5	225.2	257.1	255.6	168.4	170.2
February	232.9	232.4	181.1	181.4	224.7	224.8	258.2	256.9	168.7	170.6
March	233.8	232.9	181.4	181.7	225.9	224.9	259.3	257.7	169.0	171.1
April	234.6	233.4	181.7	182.0	226.2	225.2	260.6	258.5	169.3	171.6
May	235.5	234.1	181.9	182.3	226.6	225.6	261.8	259.6	169.6	172.1
June	236.4	234.9	182.2	182.5	227.0	226.1	263.0	260.8	169.9	172.5
July	237.3	235.8	182.7	182.7	227.8	226.7	264.2	262.0	170.3	173.0
August	238.2	236.5	183.0	183.0	228.7	227.2	265.4	263.1	170.6	173.3
September	239.1	237.4	183.3	183.4	229.6	227.7	266.6	264.3	170.9	173.7

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
*April 1985	-11.85	-11.85	166.6	166.9	3842	3842	1669	1669	-1.0	-0.6
May	-12.67	-12.67	167.8	167.4	3853	3852	1671	1672	0.3	2.2
June	-10.99	-13.42	168.5	168.0	3871	3865	1675	1673	4.9	5.3
July	-11.46	-10.51	169.2	168.7	3890	3885	1679	1676	2.2	6.7
August	-12.96	-9.90	169.6	170.1	3912	3921	1683	1687	0.7	6.8
September	-12.95	-11.56	169.3	171.0	3937	3942	1688	1691	1.3	4.8
October	-13.08	-12.05	169.0	171.1	3964	3969	1695	1695	-0.7	2.6
November	-13.17	-12.63	168.4	171.3	3986	3991	1701	1698	-3.4	1.5
December	-12.27	-12.56	168.6	171.9	4008	4014	1706	1703	-6.0	0.3
January 1986	-13.08	-12.69	168.9	171.6	4027	4041	1707	1709	-6.2	0.1
February	-12.96	-12.43	169.3	171.9	4052	4051	1711	1710	-6.9	1.5
March	-12.88	-12.21	168.8	172.2	4076	4072	1714	1715	-5.8	1.9
April	-13.02	-12.46	168.9	171.8	4089	4094	1714	1719	-3.1	1.3
May	-12.99	-12.62	168.2	171.5	4107	4112	1716	1720	-0.8	0.5
June	-12.87	-12.55	167.3	172.2	4124	4130	1717	1721	-1.1	-1.2
July	-12.66	-12.44	167.5	171.6	4145	4152	1719	1723	-4.3	-1.9
August	-12.29	-12.27	167.8	170.9	4167	4167	1722	1723	-5.6	-2.7
September	-12.08	-12.19	168.4	170.8	4190	4189	1724	1724	-6.2	-2.9

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	221.9	222.6	574.9	574.9	2427.4	2427.7	8.27	8.27	8.23	8.23
May	223.7	224.0	581.6	581.6	2444.6	2445.0	7.97	7.97	7.65	7.65
June	227.4	227.6	591.1	591.2	2472.8	2473.0	7.53	7.53	7.09	7.09
July	228.3	228.0	595.6	595.8	2495.6	2490.5	7.81	7.88	7.36	7.16
August	229.0	229.3	596.7	605.9	2503.5	2513.7	7.94	7.90	7.44	7.32
September	229.8	231.3	597.9	611.7	2511.2	2528.4	8.07	7.92	7.52	7.27
October	231.3	231.4*	603.6	610.6*	2534.9	2541.0*	8.09	7.96*	7.60	7.40*
November	232.8	232.9	608.8	612.5	2558.0	2556.2	8.27	8.05	7.68	7.53
December	234.2	234.0	614.9	615.4	2582.1	2574.1	8.45	8.23	7.76	7.71
January 1986	235.4	235.1	616.1	617.1	2597.2	2589.5	8.50	8.36	7.85	7.82
February	236.4	236.2	618.7	619.7	2608.3	2607.6	8.53	8.24	7.96	7.67
March	237.4	237.3	620.4	622.2	2619.5	2623.2	8.50	8.43	8.07	7.81
April	238.8	238.5	623.5	624.9	2638.4	2640.3	8.52	8.36	8.01	7.76
May	240.0	239.2	627.3	626.7	2655.3	2656.1	8.43	8.64	7.76	7.93
June	241.3	240.7	631.0	629.4	2672.0	2674.7	8.36	8.53	7.69	7.90
July	242.4	241.6	632.9	631.3	2686.4	2690.7	8.15	8.36	7.60	7.82
August	243.6	242.9	634.6	634.0	2701.2	2706.8	8.02	8.21	7.54	7.73
September	244.7	244.1	636.2	636.6	2716.1	2724.4	7.89	8.05	7.51	7.59

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	12.23	12.23	9.42	9.42	8.37	8.37	8.49	8.49	10.50	10.50
May	11.72	11.72	8.93	9.01	7.83	7.83	7.92	7.92	10.31	10.31
June	10.94	10.94	8.59	8.69	7.35	7.35	7.44	7.44	9.78	9.78
July	10.85	10.97	8.76	8.81	7.71	7.56	7.86	7.74	9.50	9.50
August	11.06	11.05	9.07	9.13*	7.82	7.72	7.96	7.81	9.50	9.50
September	11.28	11.07	9.31	9.32	7.89	7.83	8.13	7.93	9.50	9.50
October	11.25	11.06*	9.25	9.13	8.02	7.82*	8.17	7.95*	9.50	9.50*
November	11.47	11.23	9.52	9.30	8.15	7.96	8.31	8.07	9.99	9.50
December	11.69	11.42	9.76	9.51	8.38	8.24	8.54	8.38	10.00	9.83
January 1986	11.62	11.55	9.74	9.67	8.51	8.39	8.65	8.52	10.00	10.00
February	11.65	11.36	9.73	9.43	8.55	8.17	8.59	8.26	10.01	10.00
March	11.60	11.46	9.63	9.54	8.46	8.32	8.58	8.41	10.50	10.00
April	11.58	11.35	9.55	9.42	8.40	8.35	8.56	8.52	10.50	10.00
May	11.51	11.52	9.45	9.59	8.27	8.51	8.43	8.67	10.50	10.26
June	11.45	11.49	9.33	9.54	8.18	8.48	8.36	8.59	10.50	10.50
July	11.33	11.27	9.19	9.31	8.03	8.27	8.24	8.38	10.50	10.50
August	11.28	11.13	9.14	9.18	7.96	8.19	8.17	8.29	10.28	10.50
September	11.22	11.06	9.09	8.96	7.90	8.11	8.08	8.25	10.00	10.23

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